

GENUITY INC.

NOTES TO COMBINED FINANCIAL STATEMENTS—Continued

(Including Data Applicable to Unaudited Periods)

Genuity is also required to obtain the consent of the holders of Class B common stock before taking specific actions, including making significant acquisitions or dispositions, entering into major business combinations, and incurring indebtedness or issuing additional equity securities in excess of specified limits.

Conversion. Immediately after the completion of the proposed initial public offering, Verizon will own all of the outstanding shares of Genuity's Class B common stock.

Although the ability of Verizon to convert its Class B common stock is limited by the proposal to the FCC, these shares by their terms are convertible at any time into either:

- a number of shares of Class A common stock equal to 10% of Genuity's total common stock immediately after the conversion; or
- 800 million shares of Class A common stock or, for Verizon or any of its affiliates and at their election, Class C common stock, which represents approximately 82% (or approximately 80% if the underwriters exercise in full the over-allotment option) of Genuity's shares of common stock outstanding immediately following the proposed initial public offering.

Under the proposal to the FCC:

- if Verizon has not eliminated Section 271 restrictions applicable to its operation of Genuity's business as to at least 50% of the Bell Atlantic in-region lines, Verizon can only convert its outstanding shares of Genuity's Class B common stock into shares of Genuity's Class A common stock that after the conversion will represent 10% of Genuity's total common stock then outstanding. If Verizon transfers the Class B common stock before meeting this 50% threshold, the transferee's conversion rights would be similarly limited;
- if Verizon has eliminated the applicable Section 271 restrictions as to at least 50% of Bell Atlantic in-region lines, it could transfer its shares of Class B common stock to one or more third parties who would then be able to convert them in the aggregate into 800 million shares of Class A common stock; and
- if Verizon has eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines, subject to limited exceptions, Verizon or its affiliates could convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock.

Under the proposal to the FCC, if Verizon has not eliminated the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines on or before _____, 2005, which date may be extended under certain conditions, Verizon's ability to convert the Class B common stock into 800 million shares of Class A or Class C common stock will expire. Verizon will continue to retain its right to convert its shares of Class B common stock into shares of Class A common stock representing 10% of Genuity's total common stock then outstanding. If Verizon has satisfied the applicable Section 271 restrictions as to 100% of Bell Atlantic in-region lines on or before that date, its ability to convert the Class B common stock into 800 million shares of Class A common stock or Class C common stock does not expire. The Class B common stock transferred by Verizon to a third party will not be subject to this expiration limitation.

The Class C common stock is convertible into Class A common stock at any time. Each share of Class C common stock will automatically convert into one share of Class A common stock if at any time the aggregate number of outstanding shares of Class C common stock, together with any shares of Class C common stock issuable upon conversion of Class B common stock, held by Verizon and its affiliates constitute less than 10% of Genuity's then outstanding common stock.

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Verizon's Right to Acquire Additional Shares. If Verizon holds shares of Class A common stock and Class C common stock that in the aggregate exceed 70% of the total number of Genuity common stock, Verizon may acquire from Genuity a number of shares of Class A common stock so that Verizon will own shares of common stock equal to 80% of the total number of Genuity shares of common stock.

Liquidation. In the event of any dissolution, liquidation, or winding up of Genuity's affairs, whether voluntary or involuntary, the holders of the Class A common stock, the Class B common stock and the Class C common stock will be entitled to share ratably, in proportion to the number of shares they represent of Genuity's outstanding common stock, in the assets legally available for distribution to stockholders, in each case after payment of all of Genuity's liabilities and subject to preferences that may apply to any series of preferred stock then outstanding. Genuity may not dissolve, liquidate or wind up its affairs without obtaining the consent of the holders of the outstanding shares of its Class B common stock.

Mergers and Other Business Combinations. If Genuity enters into a merger, consolidation or other similar transaction in which shares of its common stock are exchanged for or converted into securities, cash or any other property, the holders of each class of Genuity's common stock will be entitled to receive an equal per share amount of the securities, cash, or other property, as the case may be, for which or into which each share of any other class of common stock is exchanged or converted; provided that in any such merger, consolidation or other similar transaction, the holders of the shares of Class B common stock shall be entitled to receive, at their election, either (1) the merger consideration such holders would have received had they converted their shares of Class B common stock immediately prior to the consummation of such transaction or (2) a new security that is convertible into the merger consideration and has substantially identical voting and other rights as the Class B common stock. In any transaction in which shares of capital stock are distributed, the shares that are exchanged for or converted into the capital stock may differ as to voting rights and conversion rights only to the extent that the voting rights and conversion rights of Class A common stock, Class B common stock and Class C common stock differ at that time. As described above, the holders of the Class B common stock, voting separately as a class, must consent to any merger, consolidation or other similar transaction.

Other Provisions. The holders of Class A common stock, Class B common stock and Class C common stock are not entitled to preemptive rights. There are no redemption provisions or sinking fund provisions that apply to the Class A common stock, the Class B common stock or the Class C common stock.

Immediately following the closing of the proposed initial public offering, Genuity's authorized capital stock will consist of 1,600,000,000 shares of Class A common stock, par value \$0.01 per share, 21,000,000 shares of Class B common stock, par value \$0.01 per share, 800,000,000 shares of Class C common stock, par value \$0.01 per share, and 0 shares of preferred stock, par value \$0.01 per share. Immediately following the closing of the initial public offering, there will be outstanding: (1) 173,913,000 shares of Class A common stock; (2) options to purchase approximately 50,000,000 shares of Class A common stock; (3) 18,256,000 shares of Class B common stock, all of which will be held of record by Verizon as of that date; (4) no shares of Class C common stock; and (5) no shares of preferred stock.

Long-Term Stock Incentive Plan

Genuity's employees have historically been among those granted options to purchase common stock of GTE. The Long-Term Stock Incentive Plan was adopted by the board of directors. The Long-Term Stock Incentive Plan provides for the following awards based on the Class A common stock: stock options, stock appreciation rights, performance bonuses and other stock-based awards. Awards may be granted to employees

GENUITY INC.

NOTES TO COMBINED FINANCIAL STATEMENTS—Continued

(Including Data Applicable to Unaudited Periods)

of Genuity or any entity in which it owns at least a 10% interest. The Long-Term Stock Incentive Plan will be administered by the executive compensation committee of the Genuity board of directors. The administrator has the authority to determine eligibility, grant awards and make all other determinations under the plan.

Stock options granted under the Long-Term Stock Incentive Plan may have a term of up to 10 years and may be either incentive stock options, as defined in the Internal Revenue Code, or nonqualified stock options. Stock options granted may not be assigned other than by will or by applicable laws descent and distribution. The period or periods during which an award will be exercisable or remain outstanding, including any periods following termination of service, the manner of exercise and other details of awards will be determined by the administrator consistent with the Long-Term Stock Incentive Plan.

Genuity has reserved _____ shares of Class A common stock for issuance under the 2000 Long-Term Stock Incentive Plan, subject to adjustment for stock splits and similar events. Concurrently with the initial public offering, the Company expects to issue options to purchase _____ shares of Genuity's Class A common stock at an exercise price equal to the initial public offering price. The 2000 Long-Term Stock Incentive Plan will terminate at the annual shareholders' meeting in 2010, unless sooner terminated in accordance with the terms of the plan.

Outside Directors' Compensation Plan

Pursuant to the Outside Directors' Compensation Plan, non-employee directors who have agreed to serve on Genuity's board of directors at the time of the proposed initial public offering will receive, effective upon the completion of this offering, a \$30,000 annual cash fee and options to purchase 30,000 shares of Class A common stock at an exercise price equal to the initial public offering price. In addition, non-employee directors who agree after the initial public offering to serve on the board of directors will receive, effective upon election to the board of directors, a \$30,000 annual cash fee and options to purchase 30,000 shares of Class A common stock at an exercise price equal to the fair market value at the time of the grant. Options issued to the directors will vest in three equal installments. The first installment will immediately vest on the date of grant, but will not become exercisable until the day immediately before the first annual meeting of the stockholders. The second installment will vest and become immediately exercisable on the day immediately before the second annual meeting of the stockholders. The third installment will vest and become immediately exercisable on the day immediately before the third annual meeting of the stockholders. If a director is not elected to the board of directors at an annual meeting of the stockholders all unvested options will expire.

15. Pro Forma (unaudited)

On _____, 2000 GTE made a capital contribution of \$ _____ to Genuity.

The pro forma effect of GTE's capital contribution, estimated to be \$178 million as of March 31, 2000 and the sale of Class A common stock, assuming the sale of 173,913,000 shares at an assumed initial public offering price of \$13.50 per share, after deducting the underwriters fees and estimated offering expenses payable by Genuity, has been presented separately in Genuity's accompanying combined balance sheets and combined statements of changes in stockholder's equity.

GENUITY INC.

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

**For the Years Ended December 31, 1997, 1998 and 1999 and the
Three Months Ended March 31, 2000 (Unaudited) for Genuity
and the Six Months Ended June 30, 1997 for the Predecessor
(in thousands)**

(Including Data Applicable to Unaudited Periods)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>		<u>Column D</u>	<u>Column E</u>
<u>Description</u>	<u>Balance at beginning of period</u>	<u>Charged to costs and expenses</u>	<u>Charged to other accts.— describe</u>	<u>Deductions— describe</u>	<u>Balance at end of period</u>
PREDECESSOR					
1997					
Allowance for doubtful accounts	\$ 948	\$1,840	\$ 1(a)	\$ (35)(c)	\$2,754
GENUITY					
1997					
Allowance for doubtful accounts	\$ 520	\$1,898	\$2,754(b)	\$ (850)(c)	\$4,322
1998					
Allowance for doubtful accounts	\$4,322	\$2,256	\$ 131(a)	\$(3,058)(c)	\$3,651
1999					
Allowance for doubtful accounts	\$3,651	\$4,799	\$ 201(a)	\$(3,101)(c)	\$5,550
March 31, 2000 (unaudited)					
Allowance for doubtful accounts	\$5,550	\$1,553	\$ 52(a)	\$(2,679)(c)	\$4,476

(a) Represent bad debt recoveries

(b) Represents the impact of acquiring the Predecessor

(c) Represent write-offs of uncollectible receivable balances

173,913,000 Shares

Class A Common Stock

GENUITY

\$ PER SHARE

MORGAN STANLEY DEAN WITTER

SALOMON SMITH BARNEY

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 13. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses in connection with the sale and distribution of the securities being registered, other than the underwriting discounts and commissions. All amounts shown are estimates, except the Securities and Exchange Commission Registration Fee and the National Association of Securities Dealers, Inc. Filing Fee.

Securities and Exchange Commission Registration Fee	\$ 792,000
National Association of Securities Dealers Filing Fee	30,500
Nasdaq National Market Listing Fee	95,000
Blue Sky Fees and Expenses	20,000
Transfer Agent and Registrar Fees	100,000
Accounting Fees and Expenses	1,850,000
Directors and Officers Liability Insurance	870,000
Legal Fees and Expenses	1,300,000
Printing Expenses	500,000
Miscellaneous	449,044
Total	<u>\$6,006,544</u>

ITEM 14. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes a court to award, or the board of directors of a corporation to grant, indemnity to directors and officers in terms sufficiently broad to permit indemnification under some circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933.

As permitted by the Delaware General Corporation Law, the certificate of incorporation of the Registrant provides that its directors shall not be liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent that the exculpation from liabilities is not permitted under the Delaware General Corporation Law as in effect at the time the liability is determined. As permitted by the Delaware General Corporation Law, the certificate of incorporation of the Registrant also provides that the Registrant shall indemnify its directors to the full extent permitted by the laws of the State of Delaware.

The Registrant is in the process of obtaining policies of insurance under which coverage will be provided (a) to its directors and officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts, including claims relating to public securities matters and (b) to the Registrant with respect to payments which may be made by the Registrant to these officers and directors pursuant to the above indemnification provision or otherwise as a matter of law.

The Underwriting Agreement provides for the indemnification of officers and directors of the Registrant by the Underwriters against some types of liability.

ITEM 15. Recent Sales of Unregistered Securities.

In the three fiscal years prior to the effective date of this Registration Statement, we have issued and sold the following unregistered securities:

On September 12, 1997, Genuity issued and sold 500 shares of its common stock, par value \$1.00 per share, to GTE Corporation for an aggregate price of \$500.

On , 2000, Genuity issued 18,256,000 shares of its Class B common stock, par value \$0.01 per share to GTE Corporation in exchange for 500 shares of its common stock, par value \$1.00 per share, held by GTE Corporation.

The sales and issuances of securities listed above, other the sales and issuances in Item , were deemed to be exempt from registration under Section 4(2) of the Securities Act or Regulation D thereunder as transactions not involving a public offering. The sales and issuances of securities listed above in Item were deemed to be exempt from registration under the Securities Act by virtue of Rule 701 promulgated under Section 3(b) of the Securities Act of 1933 as transactions pursuant to compensation benefit plans and contracts relating to compensation. All of the foregoing securities are deemed restricted securities for purposes of the Securities Act.

ITEM 16. Exhibits and Financial Statement Schedules.

(a) The following exhibits are filed herewith:

<u>Exhibit Number</u>	<u>Exhibit Title</u>
1.1	Form of Underwriting Agreement*
3.1	Certificate of Incorporation*
3.2	Amended and Restated Certificate of Incorporation (To Be Filed Prior To Closing Of Offering)*
3.3	Amended and Restated By-laws*
4.1	Specimen Class A Common Stock Certificate
5.1	Opinion of Ropes & Gray*
10.1	2000 Long-Term Stock Incentive Plan
10.2	Outside Directors' Compensation Plan
10.3	IRU Agreement dated as of May 2, 1997 by and between Qwest Communications Corporation and GTE Intelligent Network Services Incorporated(1)
10.4	First Amendment to IRU Agreement dated as of August 13, 1997(1)
10.5	Second Amendment IRU Agreement dated as of May 29, 1998(1)
10.6	Third Amendment to IRU Agreement dated as of November 16, 1998(1)
10.7	Fourth Amendment to IRU Agreement dated as of February 5, 1999(1)
10.8	Network Services Agreement by and between America Online, Inc. and BBN Corporation effective as of December 31, 1999(1)
10.9	Form of Agreement for Transition Services between GTE Service Corporation and Genuity Inc.(2)
10.10	Form of Agreement for IT Transition Services between GTE Service Corporation and Genuity Inc.(2)
10.11	Form of Purchase, Resale and Marketing Agreement between Bell Atlantic Corporation and Genuity Inc.(1)(2)
10.12	Form of Software License Agreement between GTE Service Corporation and Genuity Inc.(2)
10.13	Form of Software Development and Technical Services Agreement between GTE Service Corporation and Genuity Inc.(2)
10.14	Form of Intellectual Property Ownership and Cross License Agreement between GTE Service Corporation and Genuity Inc.(2)
10.15	Form of Facility Lease Agreement(2)
10.16	Form of Sublease Agreement(2)
10.17	Form of Assignment and Assumption of Lease(2)
10.18	Form of Financial Support Agreement Regarding Guaranty of Obligation between GTE Corporation and Genuity Inc.(2)
10.19	Form of Request by Genuity Inc. for Continuation of Financial Support after Separation between GTE Corporation and Genuity Inc.(2)
10.20	Master Services Agreement dated as of September 14, 1999 between GTE Network Services and GTE Global Network Incorporated
10.21	Form of First Amendment to Master Services Agreement between GTE Network Services and GTE Incorporated(2)
10.22	Form of Second Amendment to Master Services Agreement between GTE Network Services and GTE Incorporated(2)
10.23	Executive Deferral Plan
10.24	2000 Executive Incentive Plan
10.25	Executive Employment Agreement between Genuity Inc. and Paul R. Gudonis*

<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.26	Executive Employment Agreement between Genuity Inc. and Joseph C. Farina*
10.27	Executive Employment Agreement between Genuity Inc. and Daniel P. O'Brien*
10.28	Executive Employment Agreement between Genuity Inc. and Ira H. Parker*
10.29	Consent of Philippe P. Dauman*
10.30	Consent of Duncan M. Davidson*
10.31	Consent of John W. Gerdelman*
10.32	Consent of Debra L. Lee*
10.33	Consent of Michael T. Masin*
21.1	Subsidiaries*
23.1	Consent of Ropes & Gray (Exhibit 5.1)*
23.2	Consent of Arthur Andersen LLP
24.1	Power of Attorney (Signature Page)†
27.	Financial Data Schedule

* To Be Filed By Amendment.

† Previously Filed.

- (1) There are portions of these agreements that have been omitted pursuant to a request for confidential treatment filed separately with the Securities and Exchange Commission.
- (2) These agreements are being filed in the form in which they will be executed immediately upon the closing of the merger of Bell Atlantic Corporation and GTE Corporation.

Other financial statement schedules are omitted because the information called for is not required or is shown either in the financial statements or the notes thereto.

ITEM 17. Undertakings.

(a) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described under "Item 14 —Indemnification of Directors and Officers" above, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against these liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by the director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether the indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of the issue.

(b) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of these securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(c) The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in the denominations and registered in the names required by the underwriters to permit prompt delivery to each purchaser.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this Amendment No. 2 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Burlington, State of Massachusetts, on the 24th day of May, 2000.

GENUITY INC.

By /s/ PAUL R. GUDONIS
Paul R. Gudonis
Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, as amended, this Amendment No. 2 to the Registration Statement has been signed by the following persons in the capacities and on the date indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ PAUL R. GUDONIS</u> Paul R. Gudonis	Chief Executive Officer and Director (<i>Principal Executive Officer</i>)	May 24, 2000
<u>*</u> Charles J. Gibney	Director	May 24, 2000
<u>*</u> James L. Freeze	Director	May 24, 2000
<u>*</u> David B. Monaghan	Vice President, Finance (<i>Principal Financial Officer and Principal Accounting Officer</i>)	May 24, 2000
<u>/s/ PAUL R. GUDONIS</u> *Paul R. Gudonis, Attorney-in-Fact		

EXHIBIT INDEX

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(2) These agreements are being filed in the form in which they will be executed immediately upon the closing of the merger of Bell Atlantic Corporation and GTE Corporation.

EXHIBIT 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this Registration Statement.

/s/ Arthur Andersen LLP

Boston, Massachusetts

May 20, 2000

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